A NEWSLETTER FOR PENSIONERS

PENSION NEWS

Ontario Teachers' Pension Plan Board
Conseil du régime de retraite des enseignantes et des enseignants
Ontario

Issue 5
Fall 1991

Teachers Now Partners In Pension Plan

During the summer, the Ontario Teachers' Federation (OTF) reached an agreement with the Ministry of Education on equal partnership in the Teachers' Pension Plan. This means that teachers and pensioners, through OTF, will now share the management and financial responsibility of the pension plan.

The agreement is effective January 1, 1992. Highlights of the deal are:

- **Equal representation on the pension board's Board of Directors.** The government and OTF will each select four representatives, with a neutral chairperson chosen by mutual agreement. The term of office for all members will be two years, with a maximum of four terms.
- **Continued commitment by the government to pay the unfunded liability as of January 1, 1990.** The government will pay the unfunded liability of $7.8 billion.
- **Equal share in any future surplus or unfunded liability.** This will be phased in over five years (see chart below). Meanwhile, the government can use part of its share of any gains to offset its payments for the unfunded liability as of January 1, 1990.

Signing the agreement: (seated) M. Boyd, Minister of Education and G. Archambault, President of OTF; (standing, l. to r.) J. Thomas, Management Board; B. Polowy, FWTAO; G. Bouey, Chairperson, pension board; H. Schweinbenz, OECTA; J. Head, OSSTF; R. Poste, OPSTF; D. Aylsworth, OTF.

- **Negotiation of benefits and contribution rates every three years.** Where agreement can't be reached, there will be compulsory binding arbitration. The arbitrator cannot impose a rate increase of more than 0.5%.
- **On-going discussion of non-monetary issues.** A Partners' Committee will be set up to resolve disputes on issues other than benefits and contribution rates. OTF and the government will each appoint three members.

TRANSITIONAL SHARE IN GAINS/LOSSES

Period	To government	Shared equally between government and teachers
1990 – 1991	100%	0%
1992 – 1993	60%	40%
1994 – 1996	40%	60%
after 1996	0%	100%*

* The level of gains or losses will be determined by a valuation of the fund every three years.

Unfunded Liability Set At $7.8 billion

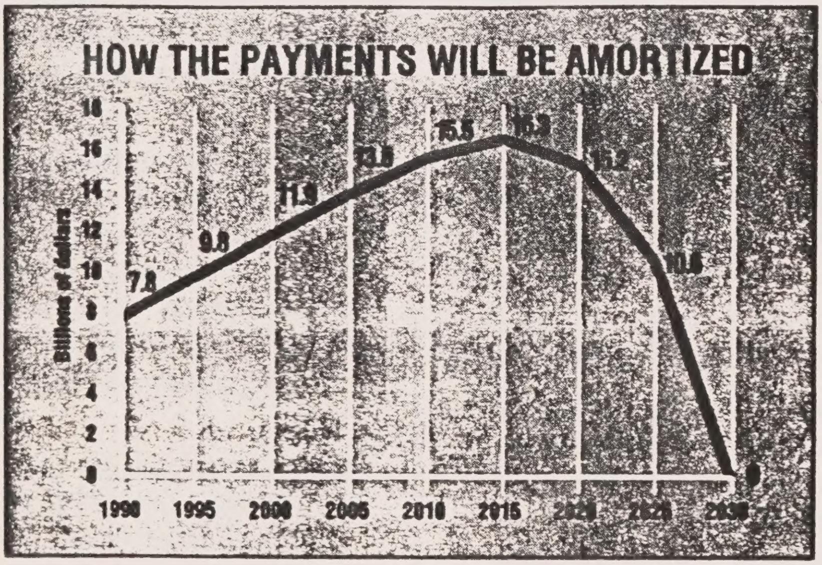
After over a year of study and discussion, our actuary has set the pension plan's unfunded liability as of January 1, 1990 at $7.8 billion and has confirmed a contribution rate of 8.9% for teachers and the government.

Government to pay deficit

An "unfunded liability" is when the plan's current assets plus future contributions at current rates are insufficient to meet the future pension benefits of existing plan members.

In 1989, the provincial government estimated that the plan's unfunded liability would be $4 billion and agreed to pay it off over a period of 40 years through a series of monthly payments.

These payments will be the equivalent of 4.29% of members' payroll, rather than a fixed dollar amount, and initially won't be enough to cover the interest charges. This method of amortization means that the unfunded liability will rise before it falls. (See chart on this page—"How the payments will be amortized".)



How did this situation arise?

When inflation protection was introduced into the plan in 1975, contributions were raised one per cent. This wasn't enough to fund the increase in benefits, and the unexpectedly high inflation rates of the 1980s only aggravated the situation.

To give you an example of the increase in benefits due to indexation, a $7,500 pension in 1972 has increased to $26,000 today.

Why $7.8 billion?

The law required the pension board to have an independent actuary determine the amount of the unfunded liability. The actuary was also required to set a contribution rate which would ensure the plan will be fully funded in the future.

The actuarial firm we hired, William M. Mercer Ltd., has now completed its valuation.

$7.8 billion is higher than the provincial government's initial estimate of $4 billion. The main reason for this is that our actuary used more complete and current data.

Factors that pushed up the liabilities include the high number of teachers taking advantage of the special early retirement programs between 1986 and 1989, lower mortality rates and recognition of the fact that few teachers continue to teach after they have completed 35 years of service.

Given the number of teachers and the magnitude of the pension fund, even a slight difference in assumptions can greatly affect the final outcome of the valuation.

Better too much than too little

Measuring the unfunded liability involves calculations and projections based upon economic and demographic assumptions.

For some calculations, the actuary has to predict how events might turn out as far as 70 years in the future. Therefore, the actuary uses

COMPARING THE ASSUMPTIONS

	Actuary's "cautious" valuation	Pension board's "best estimate" valuation
	Jan. 1, 1990	Dec. 31, 1990
RATE OF RETURN	8.5%	10.5%*
WAGE INFLATION	5.75% + seniority	6.0% + seniority
CONSUMER PRICE INDEX	4.5%	4.5%
REAL RATE OF RETURN	3.8%	5.7%**
UNFUNDED LIABILITY	$7.8 billion	$3.8 billion

* From 1990 – 2000; 9.2% thereafter

** From 1990 – 2000; 4.5% thereafter

assumptions—about the future rate of return on investments, for example—that are deliberately cautious.

Also, this cautious approach is required by the Pension Commission of Ontario (PCO). In the interests of plan members, the PCO simply wouldn't approve a figure it considered too optimistic. The PCO has to be assured that the promised pension benefits can be delivered, as the plan is held in trust for the teachers of Ontario.

Another way of valuing the plan uses a "best estimate" approach, based on the pension board's best estimate of future economic and demographic factors.

Using this method, the pension board reported an unfunded liability as of December 31, 1990 of $3.8 billion in its 1990 Annual Report.

In essence, the "cautious" valuation builds in a safety margin so that the plan can weather periods of unexpectedly poor investment performance, whereas the "best estimate" valuation is a prediction of what we expect will happen.

The table above shows the difference in assumptions used by these valuations.

What about the future?

Both the $7.8 and $3.8-billion deficits are only projections—actual events may turn out quite differently from the assumptions used.

The recent partnership agreement between OTF and the Ministry of Education means that teachers now have joint financial and managerial responsibility for the plan (see page 1).

After a six-year transition period, teachers will share equally any gains or losses with the government. In the meantime, if the plan experiences any gains, the government can use part of its share of these to offset its special payments.

The pension plan is now being managed so that future contributions and investment income will cover future benefits.

Several steps have already been taken to help ensure pension benefits are adequately funded:

✓ In 1990, contribution rates were raised one per cent—from 7.9% to 8.9%—for both teachers and the government. Our actuary has confirmed that this rate is currently sufficient to fund benefits.

✓ Empowered in 1990 to pursue a diversified investment program, the pension board has begun to assemble a team of highly qualified investment professionals. Almost $5 billion, 22% of the plan's investments, have already been invested in Canadian and foreign stocks and in real estate.

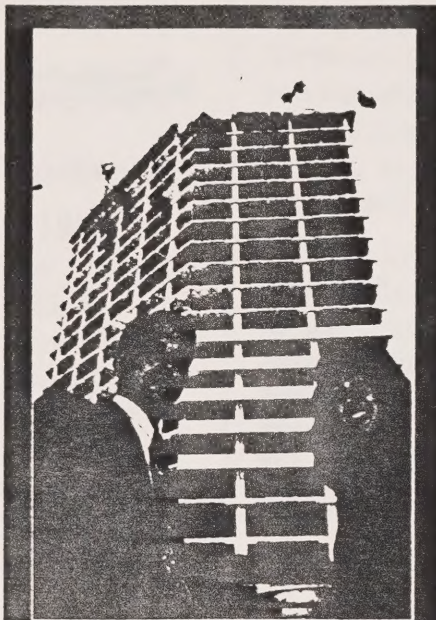
✓ The pension board will periodically carry out a "cautious" valuation to reassess the plan's financial situation. Contribution rates and benefits will be adjusted if necessary.

✓ Every year the pension board will carry out a "best estimate" valuation and record it in the Annual Report.

Fund Invests In Shopping Malls

In September we launched our real estate portfolio with the purchase of a 50% interest in three Cadillac Fairview shopping malls for $180 million. The malls are Hillcrest Mall in Richmond Hill, near Toronto, Polo Park in Winnipeg and Southland Mall in Regina.

Cadillac Fairview will continue to manage the properties. According to Brian Muzyk, our Vice President for real estate, "These strong regional malls, combined with Cadillac Fairview's excellent management experience, reflect the kind of investment we're looking for—properties which can provide us with superior long-term returns."



Brian Muzyk, Vice President, Real Estate and Karen Crompton, Assistant Portfolio Manager. Brian joined us from the Manitoba Teachers' Retirement Allowances Fund, where he was Director of Investments. Karen came to us from Canderel, a major developer.

Diversifying reduces risk

The move into real estate is part of our overall strategy to diversify our investments. Increasing the investment mix helps to spread the risk. And as returns on real estate tend to rise slowly but steadily, a real estate portfolio lends stability to the overall fund while still allowing for long-term growth.

We expect to eventually hold between 5 and 15% of our total plan assets in real estate, and have created Ontrea Inc., a wholly owned subsidiary, as a holding company.

In two or three years, we expect to have a fully diversified real estate program in place. To build up the portfolio, Brian Muzyk is currently assembling a team of five to six real estate professionals.

Solid investment background

In his previous position as Director of Investments at the Manitoba Teachers' Retirement Allowances Fund, Brian dealt with stocks, bonds and real estate.

Brian's background is reflected in his approach to real estate investment. He looks at real estate as if it were a bond, valuing it according to its income stream.

Location, location, location

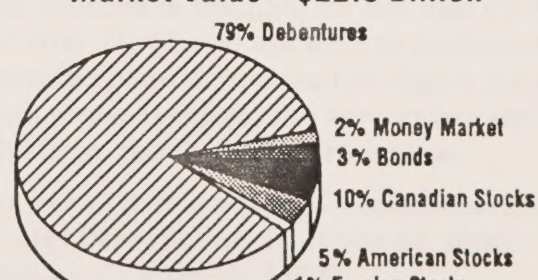
Location is a crucial factor when choosing the properties. "That's the standard in the real estate industry", says Brian. "We're looking for retail, industrial and office properties in excellent locations in major cities across Canada."

And now is the perfect time to be entering the real estate market. Says Brian, "It's a buyer's market. We are seeing properties slowly coming onto the market which would not have been for sale in former years. Buying real estate in weak periods of the economic cycle will provide for exceptional value in the long run. Building a real estate portfolio now is a tremendous opportunity."

Summary Of Investments

(to September 30, 1991)

Market Value = $22.3 Billion



Getting Married?

Are you recently married or planning to get married? If you are, the date you began receiving your pension and whether or not you have eligible survivors are two factors which determine the options you have available for your new spouse.

Began pension before January 1, 1988

If you went on pension before January 1, 1988, have since divorced, and have no children eligible for a survivor pension, you can reduce your pension to provide a survivor pension for your new spouse. To do so, you must apply to us within 90 days of your marriage by completing the Direction for Survivor Pension form (0235). If you miss this deadline, you can still provide a survivor pension but will have to pass a medical examination.

Began pension after January 1, 1988

If you went on pension after January 1, 1988, you can reduce your pension to provide your new spouse with a survivor pension only *if you have no other eligible spouse.* If you divorced after your retirement, the spouse you were living with at the time of your retirement is still eligible for a survivor pension unless other arrangements were made in your divorce settlement.

Eligible children

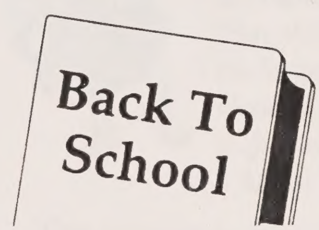
If you have a child or children eligible for a survivor pension at the time of your marriage, you may provide your new spouse with the survivor pension when the child or children become ineligible. Generally, children become ineligible when they turn 18 and do not continue full-time attendance at a college or university, or when they turn 25 if in full-time attendance at school. To change the survivor pension from your child or children to your new spouse, please complete and return the Direction for Survivor Pension form (0235) within 90 days of the date they become ineligible. If you wish to make this direction ahead of time, complete and return the form to us and we will keep it on file.

Your pension will be reduced

If you are eligible to provide a survivor pension, you can choose for your spouse to receive 50 to 75% of your pension. Whatever amount you choose, your pension will be reduced accordingly based on your age and your spouse's age.

Please investigate your options before or shortly after you get married. If you miss the 90-day deadline, you will have to pass a medical examination before you can provide survivor benefits for your new spouse.

Employment Statements



In the first week of October, we sent employment statement forms to approximately 21,000 pensioners. We use these forms to keep track of the number of days you teach after retirement ("teaching" refers to any type of re-employment in education).

If you haven't already completed and returned the form, please do so according to the guidelines on the statement. If you did not teach in the 1990-91 school year, please disregard the form.

Only those who contributed to the pension plan when they taught are eligible for a refund. If you returned to teaching for less than 96 days, or are over 71, you do not have to contribute to the pension plan. If you are not eligible for a refund, please complete the appropriate sections on the form, sign it and return it to us.

Do you have any other questions concerning teaching after retirement? If you do, please contact us at extension 4362.

It's In The Bank

What postal strike?

Thanks to direct deposit, most of you didn't have to wonder where your pension cheque was during our most recent postal strike. While other pensioners had to line-up in the heat only to find that their cheque hadn't arrived, you didn't have to worry. Most of you have your cheques deposited directly into your bank account and therefore aren't affected by any postal delays.

However, if you're one of the approximately 400 pensioners who still receive their cheques in the mail, we strongly encourage you to switch to direct deposit. Even though postal service is back to normal, why take the chance? By using direct deposit and contacting us whenever you change your bank or trust company, you can relax knowing your cheque will arrive safely every month.

Please note that direct deposit is only available if your bank account is in Canada. To arrange for the direct deposit of your cheques, simply complete the form below and return it to us as soon as possible. You can also use this form to tell us your new address or change in banking arrangements.

Spousal RRSPs

Good news! We can now directly transfer up to $6,000 of your pension into your spouse's RRSP account each year until 1994.

Previously, we asked you to contact your financial institution to make this transfer. You can now make this arrangement directly through us by returning a completed TD2 Form. You will be asked to include information about your financial institution on this form.

For more details, please contact our Income Tax Hotline at extension 4227 or 4221.

1992 Escalation Is 5.8%

The 1992 pension escalation rate is 5.8%. This year we will be sending your pension escalation statement and T4A in one package, in early January. Previously, we sent your statement in January and followed with the T4A in February.

The pension escalation statement shows your annual pension increase as measured by the change in the Consumer Price Index (CPI) each September.

CHANGING YOUR MAILING ADDRESS OR BANK ?

Please give us six-weeks' notice before you make any changes and, where possible, keep your old bank account open until we make the first deposit into your new account.

Name — SIN

Mailing Address (if new)

Bank or Trust Company Name

Address

Bank or Trust Company No. — Transit No. — Account No.

Signature — Effective Date of Change

Please attach a voided cheque

Pension News is a publication prepared by the Ontario Teachers' Pension Plan Board. The information contained in this newsletter was accurate at the time of printing. For further reference, please consult the *Teachers' Pension Act, 1989*. We welcome your comments on this newsletter.

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